

**STATEMENT OF THE ASSISTANCE COORDINATOR FOR EUROPE AND
EURASIA
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BUREAU OF EUROPEAN AND EURASIAN AFFAIRS,
U.S. DEPARTMENT OF STATE
HEARING OF THE HOUSE INTERNATIONAL RELATIONS COMMITTEE,
SUBCOMMITTEE ON EUROPE AND EMERGING THREATS
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Mr. Chairman and other distinguished Committee members, I am pleased to participate in your examination of U.S. foreign assistance programs. U.S. assistance is key to achieving our foreign policy goals in Europe and Eurasia, and we greatly appreciate your current and past support in providing us with this important diplomatic tool. With me today is Drew Luten, Assistant Administrator for Europe and Eurasia at the U.S. Agency for International Development.

As Assistance Coordinator, I am charged by Congress to coordinate and oversee all assistance going into our region. My office helps ensure that foreign assistance is tightly linked with U.S. foreign policy objectives in a way that maximizes the value of each taxpayer dollar. The office also helps ensure effective interagency coordination among assistance implementers as well as with our embassies in the region.

Assistance Advances American Interests

Mr. Chairman, in Europe and Eurasia you will find a case study of how foreign assistance can serve America's national security interests in the short, medium, and long-term.

Many of the countries of the former Soviet Union and communist Eastern Europe, all of which have received substantial U.S. assistance since the early 1990s, remain bulwarks of our Coalition operations in both Afghanistan and Iraq. Nineteen of them were active supporters of Operation Iraqi Freedom, Operation Enduring Freedom, and/or the International Security Assistance Force in Afghanistan in 2004. At the same time, many of these transition countries are strongly engaged with Euro-Atlantic institutions, and it is clearly in our long-term foreign policy interest to encourage their aspirations for closer relationships with NATO and the EU. We can try to do this through dialogue alone, but diplomacy is much more effective when it is coupled with foreign assistance. The Foreign Military Finance (FMF), International Military Education and Training (IMET), and Peacekeeping Operations (PKO) accounts are helping countries make the operational and structural changes they need to integrate with NATO security structures. Political and economic transition assistance through the FREEDOM Support Act (FSA) and Support for East European Democracy (SEED) Act are helping build constituencies for reform and, once countries are committed to meeting EU or NATO standards, giving them the necessary tools to be ready for the responsibilities of membership. Since this Committee examined our foreign assistance in Europe and Eurasia one year ago, eight more Central and East European countries (the Czech Republic, Hungary, Poland, Slovenia, Slovakia, Estonia, Latvia, and Lithuania) have joined the EU and seven have joined NATO (Latvia, Lithuania, Estonia, Slovenia, Slovakia, Romania, and Bulgaria). Albania, Macedonia and Croatia are members of NATO's Membership Action Plan. Croatia is also preparing itself for opening accession talks with the EU. Both Ukraine and Georgia have affirmed their Euro-Atlantic orientation, and Ukraine and Moldova

have signed Action Plans with the EU. All of these countries, however, have hard work left to do.

We can clearly see how, in the short and medium-term, many countries in this region are moving from being consumers of assistance to being contributors to our global security interests. It is sometimes more difficult to recognize the longer-term trends. For many years now, this Committee and many others in the Congress and in the Administration have expressed frustration with the slow pace of democratization and economic reform, particularly in the former Soviet states. Some have questioned the efficacy of our assistance and wondered whether the twin ills of official corruption and popular apathy might cause these countries to remain indefinitely in a post-Soviet twilight zone.

Recent events have demonstrated that the U.S. Government's strategy of the past 15 years - which has involved intensive engagement with governments and with the broader society through technical assistance, training, grants, and exchanges - is beginning to bear fruit. First in Georgia, then in Ukraine, and most recently in the Kyrgyz Republic, we witnessed the extraordinary expression of democratic spirit by ordinary citizens who refused to allow the will of the people to be subverted. Many ingredients were necessary for these breakthroughs to occur - the courage and resolve of the Ukrainian, Georgian, and Kyrgyz people chief among them - but U.S. democracy programs also played an important role. There is no doubt that our long-term investment in training, civil society grants, and exchange programs helped support the foundation for effective action by

many actors including civil society, independent media, political parties, parliaments, and judiciaries.

In addition to our long-term programs, we targeted short-term election-related programs during key elections to: improve the administration of the elections where possible; support more balanced media coverage; educate voters about their rights and provide legal recourse when rights were violated; increase the ability of political parties and candidates to participate effectively in the elections; and enable civil society groups and international organizations to monitor the process. Our assistance played an important role in increasing expectations for democratic elections and spotlighting electoral fraud, thus laying the basis for the people of Georgia, Ukraine, and the Kyrgyz Republic to challenge manipulated results. In all three countries the sustained and ultimately effective response of political parties, NGOs, and independent media to electoral fraud was a testament to the strength of civil society in these countries. While it is too early to call any of these so-called “revolutions” an unqualified success, the breakthroughs present new governments and civil society activists with a real opportunity to make good on the public’s demand for serious reform.

Democratic gains in Ukraine, Georgia, and the Kyrgyz Republic must be consolidated, and here, too, our assistance will play a crucial role. Georgia has made significant progress in economic and democratic reform in the year following the November 2004 Rose Revolution. Tax revenues have greatly increased; corrupt officials have been made to account for past actions; effective law enforcement institutions are being created; civil

service reform has begun; and the government has begun to think strategically about issues such as energy and education. At the government's request, the United States has provided funding for advisors to six government ministries.

Ukrainian President Yushchenko aims to integrate his country with Europe and Euro-Atlantic institutions as quickly as possible. Our task over the next months and years will be to work with the Ukrainian Government to consolidate the country's recent democratic gains, promote the rule of law, and advance its economic reform and integration with the European and global economies. Mr. Chairman, I would like to take this opportunity to thank the Committee for the support provided in the Ukraine supplemental bill – these funds are helping the new government make immediate progress on consolidating recent democratic gains.

In the Kyrgyz Republic, the presidential election was an opportunity to realize the promise of the March 24 revolution and establish new democratic benchmarks for the rest of Central Asia. But, as in Georgia and Ukraine, the election is only the first step. It will be up to the new president and government to ensure that the people get the change they demanded. We will work with the Kyrgyz Republic to consolidate democratic gains, fight corruption, support the rule of law, promote economic growth, and alleviate poverty. Constitutional reform is a key first step and it will help establish a greater balance of power, including a stronger parliament and an independent judiciary. We will also continue to support the further development of civil society and independent media.

These are the vital institutions of a vibrant democracy and strengthening them will be a high priority for U.S. assistance

The Georgian, Ukrainian, and Kyrgyz democratic breakthroughs have reverberated throughout the region. In addition to these democratic breakthroughs, we continue to work with our Russian partners to consolidate and advance reform in Russia. Speaking in Brussels in March, President Bush said “Russia’s future lies within the family of Europe and the transatlantic community,” an outlook that President Putin has articulated as well. It is this future that our assistance programs in Russia aim to help secure. More than any other country in the Eurasia region, Russia’s future stability, which is linked to its democratic development, directly affects U.S. national security interests. We are aligning resources within FSA funding for Russia to focus on support for democracy. In 2005, over half of the Russia budget is dedicated towards democratic political processes, civil society, rule of law, and independent media, and we expect to dedicate an even larger proportion of the budget to these priorities in FY 2006, in preparation for upcoming parliamentary and presidential elections in 2007 and 2008. We greatly appreciate the supplemental funds the Congress provided for the Northern Caucasus and plan to accelerate both humanitarian and development assistance programs to the region working with the World Health Organization, UNICEF, and U.S. and international NGOs that are active in the region.

In Belarus, using the upcoming July 2006 presidential election as a focal point, supplemental funds provided by Congress will enable us to expand our work with

opposition parties, increase the flow of independent information available to the Belarusian people, and strengthen civil society activists in their struggle to promote democracy in Europe's last dictatorship. These efforts are facing increasing obstacles from the Belarusian government and so we are looking more and more to supporting them from outside of Belarus. We are also working to coordinate democracy promotion in Belarus with the European Union and interested European governments.

Old and New Challenges

When the FSA and SEED accounts were created, the focus was on economic and democratic transition. There was a sense that if only the transition countries could get their political structures and economic policies "right," stability and prosperity would follow. And it has in fact turned out to be generally true that the level of commitment to reform has correlated to economic growth and internal stability.

But new factors, not anticipated by the authors of SEED and FSA, have complicated the picture. Familiar transnational threats, such as organized crime, terrorism, and the illegal narcotics trade, have grown in scope and virulence. Relatively new challenges – extremism, human trafficking, HIV/AIDS – have arisen, threatening to undermine political and social stability. Vastly increased poppy production in Afghanistan is flowing into Central Asia and on into Russia, the Balkans, and Western Europe, leaving a trail of corruption in its wake. Organized crime is especially entrenched in the Balkans and is a major obstacle to establishing good governance and the rule of law. HIV/AIDS is poised to ravage these transition countries, most particularly Russia and Ukraine. And

now avian flu has appeared in parts of Central Asia with the potential, if it spreads and becomes transmittable among people, to further inhibit the development of human capital in these countries.

Furthermore, the creators of SEED and FSA did not foresee the complete collapse of the Communist-era social service infrastructure, which has resulted in an alarming decline in health and education indicators in many of these countries. In Ukraine, for example, the number of deaths surpasses the number of live births by a ratio of 197 to 100. In Tajikistan, secondary school enrollment is half what it was at the end of the Soviet Union. These are but a few of the manifestations of declining quality of life that may eventually be reflected in political and social instability.

Countries where political, economic, and justice sector reforms are incomplete or completely absent, as in Belarus or Turkmenistan are the most vulnerable to the destabilizing effects of transnational threats and deteriorating social conditions. That is why, even as we direct an increasing proportion of our SEED and FSA assistance to address transnational threats and social sector problems, we continue to focus the largest share of these accounts on fundamental economic and political reform.

In the Balkans, we have energetically pursued the downsizing of the international military presence in a region recovering from more than a decade of violent ethnic conflict. In Bosnia and Herzegovina, defense reform took a quantum leap forward with the creation of a state-level Ministry of Defense, on December 2, 2004, the NATO-led

Stabilization Force (SFOR) that had ensured the peace and stability as civilian reconstruction progressed, successfully completed its mission and a European entity, the European Union Force (EUFOR), assumed responsibility for stability. But Euro-Atlantic integration cannot be completed until Serbia and Montenegro, Croatia, and the Republika Srpska entity in Bosnia cooperate fully with the International Criminal Tribunal for the former Yugoslavia (ICTY), most notably with the arrest and transfer to The Hague of Radovan Karadzic, Ratko Mladic, and Ante Gotovina. In Kosovo our policy objective is to help build a secure, self-sustaining, stable, and multiethnic society that can eventually be fully integrated into Europe. U.S. assistance is helping Kosovo achieve that goal through implementation of the Standards for Kosovo. In keeping with a decision made by the Contact Group in November 2003 and endorsed by the UN Security Council, UN Envoy Kai Eide is now conducting a review of progress on Standards implementation, and if results are sufficiently positive, the international community will move toward a process to address Kosovo's future status.

Mr. Chairman, in addition to supporting peace and stability in the Balkans, ESF funds have promoted peace and reconciliation in Cyprus and Northern Ireland, and social and economic development, including women's rights in Turkey. In Cyprus we are supporting bi-communal programs that empower Cypriots to lead reconciliation efforts. In Turkey our efforts focus on social cohesion, solidarity, and women's rights as the country undertakes deep rooted political, social, and economic reforms. These efforts will further anchor Turkey in the values and institutions of the West. Finally, in Northern

Ireland we are fostering cross-community interaction and reconciliation between Catholic and Protestant communities.

Looking Forward: Strategic Priorities

The fall of the Berlin Wall and the breakup of the Soviet Union fundamentally changed our world and challenged us to develop new foreign policy approaches, backed up by new foreign assistance programs. Fifteen years later, we are faced with a new set of complex challenges and new resource constraints that are forcing us to reorder priorities.

Following President Bush's January 20, 2005 statement that "it is the policy of the United States to seek and support the growth of democratic movements and institutions in every nation and culture, with the ultimate goal of ending tyranny in our world," the list of key priorities we have set for our assistance programs over the next few years includes:

1. Promoting democracy: As the President said in his last State of the Union address, democracy is a priority, "because democracies respect their own people and their neighbors; the advance of freedom will lead to peace." The experience of the past fifteen years and recent breakthroughs have shown us the value of well-coordinated and strategic support for democratic transition. We have three objectives under the broad democracy rubric. Our first objective is to work with reform-minded governments to consolidate democracy in the breakthrough countries in the Balkans and Eurasia. Here we need to help these governments deliver tangible benefits to citizens, especially economic growth, improved social services and reduced corruption, and we need to ensure the sustainability of civil society and independent media. We cannot let democracy fail in these countries.

Our second objective is to accelerate the spread of freedom by pushing for further democratic change in Eurasia where conditions are ripe. We must provide assistance and support to energize civic groups, independent media, and monitoring organizations. We must ratchet up the pressure for free and fair elections, coordinating our diplomatic messages with our assistance efforts. Our third objective is to continue proven democracy programs in countries where progress is slow, including in Turkmenistan, Uzbekistan, and Tajikistan. In these countries we must continue our work with civil society, democratic political parties, independent media, judiciaries, legislatures, and local governments to build the foundation for future change.

2. Supporting Partners in the Global War on Terrorism. As I have mentioned, many countries are already contributing to international peacekeeping efforts and to the Global War on Terrorism. These partnerships are nascent and it is in our interest to help these countries do more. If not for the participation of these countries in the Balkans, OIF, OEF, and ISAF, the burdens on American and other Coalition troops would be greater. We need our partners to be interoperable with the United States military and with NATO. We need them to be trained in modern military practices. Our security assistance through FMF, IMET, and PKO is truly an investment in our own security.

3. Facilitating Euro-Atlantic Integration: For those countries with governments committed to integration with Western institutions and willing to tackle the tough issues (like corruption) that stand in the way of that goal, we focus assistance on accelerating reforms and consolidating the institutions of a market-based democracy. Bulgaria,

Romania, and Croatia are examples of countries that soon will graduate from such U.S. assistance. Bulgaria and Romania are due to complete their SEED programs over the next few years, (Bulgaria is 2006 phase-out) with the last year of budget requests in 2006 and 2007 respectively joining their fellow SEED graduates as EU members in 2007. Croatia's SEED program will begin to phase out in 2006, with prospective EU membership contingent on cooperation with the ICTY. Georgia and Ukraine are now on a similar track, but at the beginning of the process. In addition, security assistance helps with integration with NATO, which furthers trans-Atlantic relations. SEED and FSA funded programs are key to advancing the broad USG goal of creating law enforcement agencies, specialized units, legislation, and criminal justice sector systems that are harmonized with European and internationally accepted standards.

4. Empowering Entrepreneurs: Quite simply, jobs for a middle class are a force for stability. Property ownership gives citizens a stake in their country. Support for job creation may seem unexciting, but in this region it is radical. The creation of capital markets, strengthening of property rights, deregulation, rationalization of tax policies, commercial law reform, promotion of regional trade, identifying areas of competitiveness, and privatization of land – especially in rural areas – are the keys to building a vibrant market economy, and we are working on all these issues throughout the region. Increasingly though, we are focusing on support for the emerging class of entrepreneurs, which we do through training and lending facilities. Small and medium business owners can be the catalyst for job creation and economic growth, even in the most desperately poor areas of our region.

5. Fighting Transnational Threats: Narcotics, organized crime, and other threats that cross borders constitute some of the most difficult challenges we face. Heroin from Afghanistan is flooding into the former Soviet Union and Southeast Europe, but it is not just transiting these states. It is contributing to crime, disease, and corruption to such an extent that it threatens to overwhelm recent gains, particularly in Central Asia. Russia, Ukraine, and the Balkans have also been victims of this scourge, which is the principal cause of escalating HIV infection rates. Because our resources alone cannot fully address this problem, we are coordinating closely with the European Union and the United Nations on the drug issue, while also leveraging grant resources from the Global Fund to fight AIDS, Tuberculosis, and Malaria to address the HIV/AIDS challenges. At the same time, we expect to continue devoting significant resources to combat human trafficking in FY 2006.

FSA and SEED Phase Out

Mr. Chairman, although there have been clear successes in these transition countries, we never stop retooling our strategies, adjusting programs to fit changing realities, and trying to ensure that our programs are cost-effective. We are also aware that the ultimate goal is to see the need for the SEED and FSA accounts disappear. These were conceived as transitional accounts, with programs expected to phase out when stable market democracies emerged to take the place of the former Communist states. Consistent with this original intent, in 2004 we conducted a comprehensive interagency review of the transition status of all twelve FSA countries and the five SEED countries slated to

continue receiving assistance after FY 2006. The review analyzed progress in the political, economic, social, and security/law enforcement sectors, and ultimately recommended phase-out dates for each sector of assistance in each country. These phase-out dates have been identified for planning purposes and do not convey any commitment to funding levels or entitlement to assistance until that time.

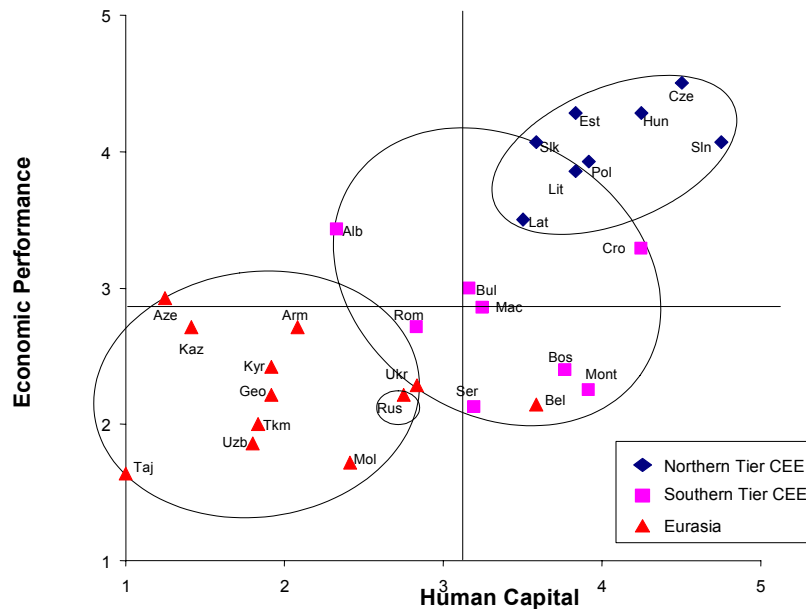
Our ability to set phase out timeframes was significantly aided by a set of indicators that were developed by our USAID colleagues and used to measure countries' progress on democratic and economic reform. These data are collected by Freedom House and the EBRD, and are similar to indicators used to determine MCA eligibility. Based on these indicators, as well as discussions with our embassies, implementing agencies, and other stakeholders, the goal-line for phasing out SEED and FSA assistance was set as the point at which a country has achieved the level of progress reached by Bulgaria and Romania at the time they were offered NATO membership in 2002. (This was deemed to be a stage where reforms would be "irreversible.") The data also track countries' economic performance and social indicators (health and education) to see whether reforms are translating into improved quality of life for ordinary citizens. Otherwise, reforms are unlikely to be sustained.

Clearly the post-Soviet democratic and social sector transition has not been as fast as the founders of the SEED and FSA accounts had anticipated. In fact, in both of these sectors there has been considerable backsliding in recent years. Notwithstanding the important breakthroughs of the past year, there is a long way to go before the original intent of

SEED, and especially FSA, can be realized. There are sure to be setbacks along the way and the coming years will require us to maintain a long-term perspective and persist in engaging the peoples and governments of the Eurasian countries through technical assistance, training, exchanges, and partnership programs.

Summary Figure 2

Economic Performance and Human Capital in 2002-2004



USAID, MCP#9 (2005) drawing from World Bank, *World Development Indicators 2004* (2004); UNICEF, *Social Monitor 2004* (2004); EBRD, *Transition Report* (November 2004); Ayyagari, Beck, and Demirguc-Kunt, *Small and Medium Enterprises across the Globe: A New Database*, World Bank Policy Research Working Paper 3127, (August 2003).

Conclusion

We have successfully prevented the emergence of full-fledged failed states in our region so far, but we are ever alert to the warning signs. In this regard, we view our assistance programs as a form of preventive medicine. We are making investments today aimed at preventing the future growth of extremist and anti-American ideologies, of organized crime and infectious disease, and other forces that could ultimately touch our shores.

As I stated at the beginning of my remarks, we also view our assistance programs as an indispensable tool of our diplomacy that helps us garner support for immediate, as well as longer-term foreign policy objectives. And in that context, it is worth emphasizing that the overwhelming support we have received from the recipients of SEED and FSA assistance in the global war on terrorism is not just based on the policies of governments currently in power. I truly believe that in most cases it is based on shared values that go deeper into these societies. These shared values have been promoted by our foreign assistance – including, very importantly, our public diplomacy and exchange programs – for the past 15 years since the fall of the Berlin Wall. Through our aid programs, Americans are engaging with non-governmental organizations, educational institutions, private companies, students, scientists, and many, many others. And this engagement is helping to form a network of linkages between our society and their societies, a web of linkages strong enough to withstand the ups and downs of bilateral relations over time. That is an excellent return on the investment of our foreign assistance dollars and it is one that members of this Committee can be proud to have supported.